

## Message Text

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46

ACTION NEA-13

INFO OCT-01 AF-10 EUR-25 ISO-00 FEA-02 INT-08 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01

OMB-01 SAM-01 NSC-10 SS-20 STR-08 CEA-02 L-03 H-03

PM-07 DODE-00 PA-04 USIA-15 PRS-01 SCI-06 DRC-01 /216 W

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R 050850Z FEB 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 1274

INFO USINT ALGIERS

AMEMBASSY BEIRUT

USINT CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMCONSUL DHAHRAN

C O N F I D E N T I A L ABU DHABI 0116

PARIS FOR OECD

KUWAIT PASS DOHA AND MUSCAT

BEIRUT PASS BAGHDAD

EO 11652: GDS

TAGS: ENRG, TC

SUBJ: ABU DHABI REACTION TO KUWAIT PARTICIPATION AGREEMENT

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SUMMARY

AS SOON AS KUWAITI PARLIAMENT RATIFIES GOK'S PARTICIPATION AGREEMENT WITH KOC, ABU DHABI (UAE) EXPECTED PRESS FOR SAME OR BETTER TERMS. THESE COULD RANGE BETWEEN 60.5 AND 80 PERCENT EQUITY SHARE IN ADMA AND ADPC, ACCORDING KEY OFFICIALS CONCERNED WITH OIL MATTERS. THERE ALSO SOME EVIDENCE NO DECISION WILL BE TAKEN HERE BEFORE SAUDIS INDICATE DIRECTION IN WHICH THEY WILL MOVE.

1. GENERAL REACTION HERE TO ANNOUNCEMENT BY GOK THAT IT HAS SIGNED PARTICIPATION AGREEMENT WITH OPERATING COMPANIES WHEREBY GOK WILL BECOME 60 PERCENT EQUITY PARTNER IN KOC HAS BEEN ALONG EXPECTED LINES, NAMELY THAT ACCORD ANTICIPATED AND ABU DHABI WILL DEMAND FROM ITS COMPANIES SAME OR PERHAPS EVEN BETTER TERMS THAN BP AND GULF HAVE OFFERED GOK. THIS VIEW WHICH PUBLICLY STATED BY SHAIKH ZAYID AND MIN PET OTAIBA ON NUMEROUS OCCASIONS PAST FEW MONTHS, REINFORCED TO CHARGE BY UNDERSEC AD DEPT PET ABDULLAH ISMAIL DURING CALL FEB 1. IN REPLY TO QUESTION WHEN AD COULD BE EXPECTED PRESS FOR REVISION CURRENT PARTICIPATION AGREEMENT, ISMAIL SAID HE DOUBTED ANY FORMAL MOVE WILL BE MADE UNTIL KUWAITI PARLIAMENT APPROVED GOVT'S AGREEMENT WITH KOC; IT WOULD BE FOOLHARDY, HE EXPLAINED, FOR ABU DHABI OR ANY OTHER GULF PRODUCER TO ACCEPT ANYTHING LESS THAN KUWAIT WILL GAIN. ALTHOUGH ISMAIL AND OTHER SOURCES REASON THAT GOK WOULD NOT HAVE CHOSEN PRESENT MOMENT TO ANNOUNCE AGREEMENT IF IT NOT REASONABLY CERTAIN OF PARLIAMENTARY RATIFICATION, THERE REMAINS LINGERING ELEMENT OF DOUBT IN LOCAL MINDS THAT ADVOCATES OF FULL NATIONALIZATION WITHIN KUWAITI ASSEMBLY MAY YET PREVAIL. ABU DHABI WISHES PRESERVE ALL ITS OPTIONS OF COURSE, IN CASE ASSEMBLY SHOULD REJECT 60 PERCENT PARTICIPATION FORMULA.

2. HAVE LEARNED FROM KNOWLEDGEABLE BUT AS YET UNTESTED SOURCE, THAT ABU DHABI INFORMED OPERATING COMPANIES, ADMA AND ADPC, SEVERAL MONTHS AGO WHEN 60 PERCENT DEMAND FIRST MADE BY KUWAIT, THAT ABU DHABI NOT ONLY ENTITLED TO SAME DEAL, BUT EXPECTED SLIGHTLY BETTER SLICE OF PARTICIPATION PIE. SOURCE SAID THAT WITHIN PAST MONTH AFTER EXCHANGE

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SEVERAL LETTERS ON SUBJECT, BASIC UNDERSTANDING HAS BEEN REACHED BETWEEN COMPANIES AND ADG PROVIDING FOR 63 1/2 RPT 63 1/2 PERCENT GOVT PARTICIPATION IN OPERATING COMPANIES. RATIONALIZATION OF SIXTY-THREE AND ONE HALF-PERCENT SHARE IS 51 PERCENT EQUITY INTEREST TO WHICH WOULD BE ADDED 12 1/2 PERCENT ROYALTY SHARE.

3. HAD BRIEF CONVERSATION ON THIS SUBJECT WITH VISITING

BP MANAGING DIRECTOR SUTCLIFFE. SUTCLIFFE SAID HE MET FEB 3 WITH UAE MIN PET OTAIBA, WHO MENTIONED GOOD NATUREDLY THAT FOR PRESTIGE REASONS ABU DHABI MUST BETTER KUWAIT'S ACHIEVEMENT BY AT LEAST ONE HALF PERCENT GREATER EQUITY SHARE, I.E. 60.5 PERCENT. TO BUTTRESS HIS ARGUMENT, OTAIBA RECITED ARAB PROVERB TO SUTCLIFFE THAT "A FATHER (BP) HAD TO BE EQUALLY SOLICITOUS IN GIFT-GIVING TO ALL HIS CHILDREN (THE HOST COUNTRIES), BUT HIS GREATEST LOVE AND GENEROSITY WAS ALWAYS RESERVED FOR THE YOUNGEST CHILD." IN THIS CASE, OTAIBA WAS EQUATING THE YOUNGEST CHILD WITH ABU DHABI, THE LAST OF BP'S CONCESSIONS IN AREA TO BE DEVELOPED. HINTING THAT HE DESPERATELY NEEDED AN ATTRACTIVE NEW PARTICIPATION DEAL IN ORDER TO SILENCE HIS CRITICS WITHIN THE UAE AND AD GOVTS, OTAIBA STATED BP AND THE OTHER OPERATING COMPANIES SHOULD ASSURE THEMSELVES OF CONTINUED SUPPLY OF AD CRUDE BY OFFERING HIM VERY COMPETITIVE BUY-BACK PRICE IN ANY REVISED PARTICIPATION AGREEMENT. BOTH OTAIBA AND ADNOC CHAIRMAN SHAIKH TAHNOUN (COUSIN OF SHAIKH ZAYID) JOKINGLY MENTIONED TO SUTCLIFFE THAT THEY LOOKED FORWARD TO HIS EARLY RETURN, WHICH HE AND ADMA MANAGEMENT INTERPRETED TO MEAN ABU DHABI EXPECTS EARLY PARTICIPATION BARGAINING SESSIONS.

4. IN COURSE FEB 4 COURTESY CALL OOASHAIKH TAHNOUN, HE COMMENTED IN REFERENCE KUWAIT AGREEMENT THAT ABU DHABI WOULD DEMAND MORE THAN SIXTY PERCENT, PERHAPS EVEN 80 PERCENT. IN FRONT OF BROTHER AND KEY ADNOC STAFF, TAHNOUN LAUNCHED INTO STRONG CRITICISM OF OPERATING COMPANIES ALLEGING THAT IN CONTRAST TO ARAMCO THEY HAD NEVER ASSISTED IN DEVELOPMENT OF COUNTRY, AND THEREFORE DIDN'T DESERVE CONTINUED SHARE OF CONTROL OVER ITS RESOURCES.

5. FROM REACTIONS OF SUTCLIFFE AND OUR OWN SOUNDINGS, IT  
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CLEAR ABU DHABI (UAE) WILL DEMAND PROMPT REVISION OF PARTICIPATION AGREEMENT TO INCORPORATE BENEFITS DERIVED BY KUWAIT. ON OTHER HAND, THERE SOME EVIDENCE ABU DHABI IS CLOSELY WATCHING DIRECTION IN WHICH SAUDI ARABIA WILL MOVE RE REVISION OF PARTICIPATION AGREEMENT WITH ARAMCO BEFORE MAKING ITS OWN DECISION.  
GRIFFIN

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